

Overview of City Budget Public Forum

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Public Forum

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Overview

- Key Budget Concepts
 - Funds
 - One-Time Money
 - Revenues
 - Expenses
- FY17 Budget Drivers
- Key Upcoming Dates

Key Budget Concepts: Funds

Different pots of money,
based on legal requirements

Funds

- General:
 - Where most city services are funded
- Internal Service:
 - Where services that support operating departments, with a user fee, are funded (like Fleet and Information Technology)
- Enterprise:
 - Where certain city services that operate like a business are funded (like Coliseum or Solid Waste)

Funds

- Special Revenue:
 - Where services that are paid with legally restricted funds are budgeted (like Stormwater, Steam Plant and the Economic Development loans/grants)

Key Budget Concepts: One-time money

Once you use it, it's gone

Budget “Surplus”

Three ways we can end the year:

- Over budget
 - (Not acceptable)
- Dead on
 - (Statistically impossible, since 1% = \$3 million)
- Under budget

What Happens to Surplus?

- When we don't spend all of what we take in, it goes into fund balance
- Fund balance = savings account
- Savings account can be used for one-time payments such as bonuses, capital equipment or land purchases
- Once used, the savings account balance goes down
- Maintain a balance in the account per policy to maintain top credit rating

Good Uses of Savings Account

| Personal/Home Account | City Fund Balance |
|---|--|
| Home repairs like replace a roof | Building repairs |
| Buy things that last awhile, like new furniture or put a down payment on a car | Give employee bonuses |
| Buy new equipment for the household, like a computer, television or kitchen appliance | Buy new equipment for the workforce, like computers, safety gear or vehicles |

- Not pay bills that occur each month like mortgage, electricity, etc.

Key Budget Concepts: Revenues

Money coming in

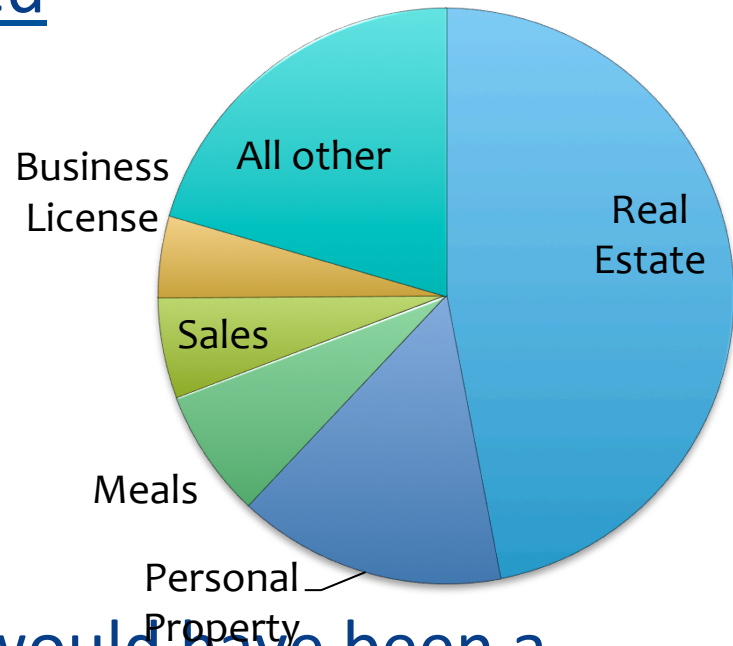
Where the Revenue Comes From

- Locally-generated: 85%
- State revenue: 15%
 - Most state revenue is restricted in use and/or reimbursements for required functions
 - Examples: social services, jails, constitutional offices, etc.
 - Only 0.25% is flexible funds that can cover any general expense
- Federal revenue: 0.01%

Sources of Local Revenue

- 79% of the locally generated revenue comes from:

- 1) Real estate taxes
- 2) Personal property taxes
- 3) Meals tax
- 4) Sales tax
- 5) Business license tax



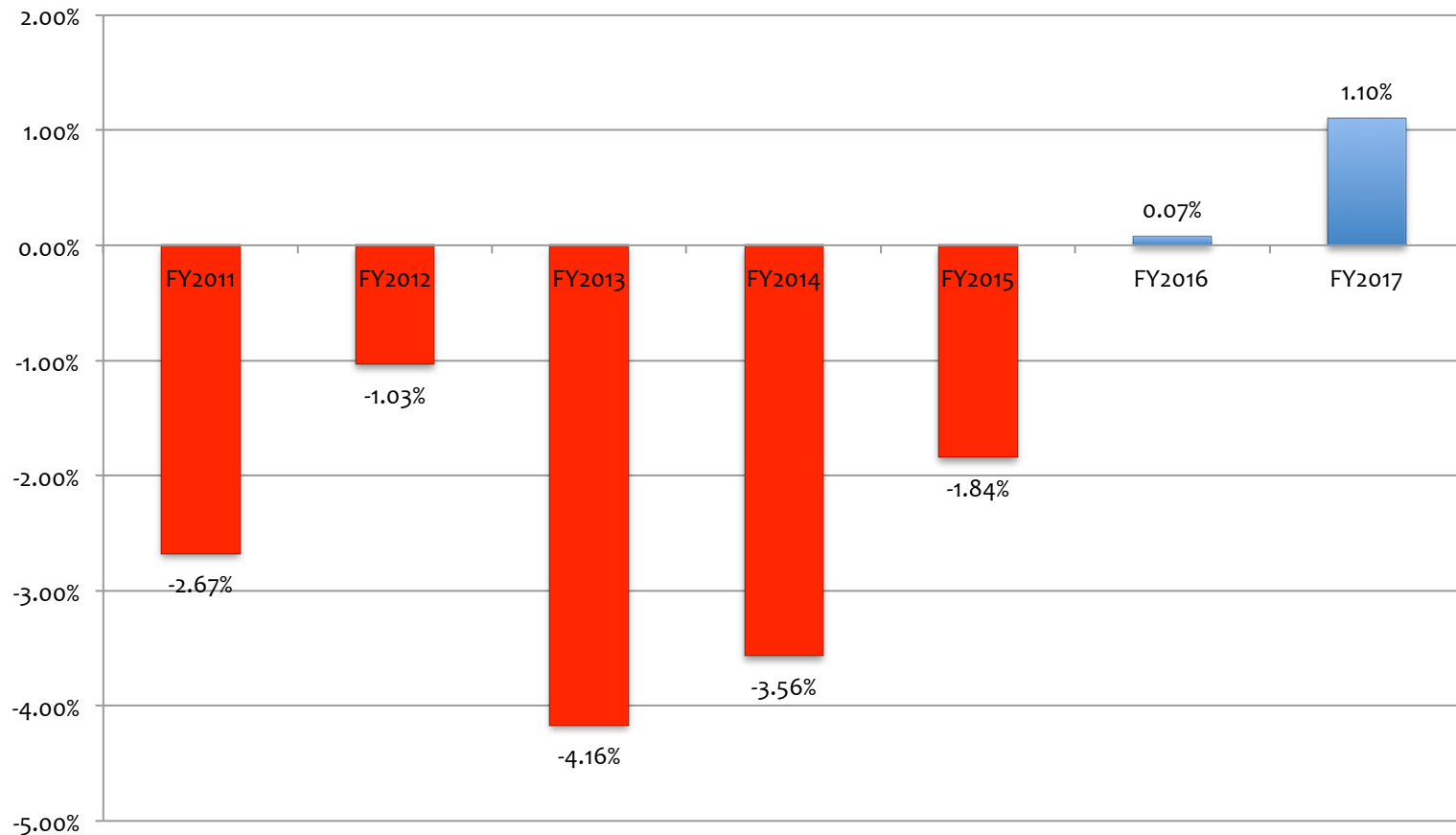
Over the last 5 years, there would have been a revenue loss in these 5 segments combined -- if not for increases in tax rates.

Real Estate Tax

- Largest source of total City revenue: 28%
- Only ways to grow are:
 - New construction – homes or businesses
 - Improvements/redevelopment
 - Reassessment– change in market value, regulated by state law
 - Tax rate change
- New construction opportunities limited unless redevelopment is aggressively pursued
- Real estate values declined in prior years as a result of national economic factors

Recession Impact

Taxable Value Change (less credits)



Personal Property Tax

- 2nd largest source of total City revenue: 9%
- Fluctuating revenue
 - Increases only when people are buying new cars
 - Decreases with car depreciation over time
- Little the city can do to influence this

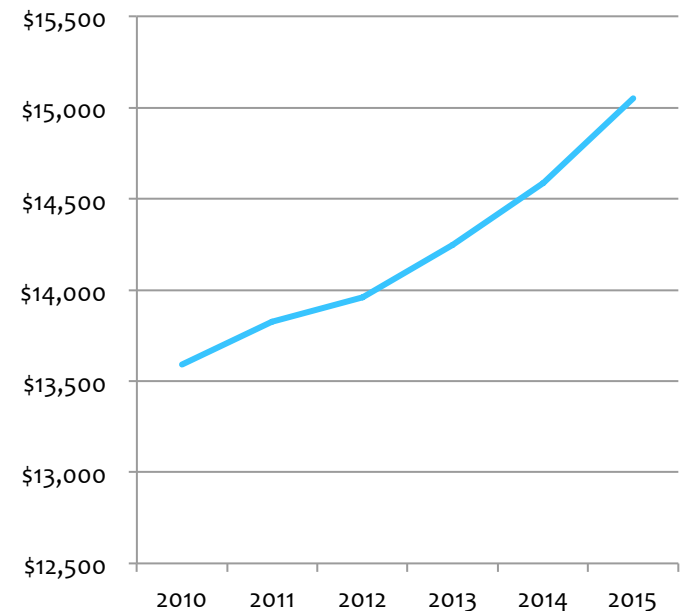
Sales & Meals Tax

- 3rd & 4th largest sources at nearly 8% of total revenue
- Of the sales tax charged:
 - 1 cent comes back to support the city budget – based only on sales in Hampton
 - 1 cent is dedicated to school systems statewide – state sales distributed to schools based on enrollment
- Meals tax is an add-on to sales tax for all Hampton restaurant & prepared meals
- Increases based on enhanced sales activity in City

Sales & Meals Tax

- Until City began to attract new restaurants, this had been a fairly flat (<1%) performing revenue
- Since new investments made, this revenue source has been growing at 3-5% per year

Sales Taxes



Business License Tax

- 5th largest source of total City revenue: 3%
- Based on gross receipts of businesses operating in City
- Maximum rates set by State, and State has considered elimination of this source
- Grows when existing companies do more business and/or when we get new companies to locate in Hampton
- Has been fairly flat during recession

Why Revenue Performance is Important

- Revenue growth is needed to fund:
 - Cost increases necessary to provide services, like gas, competitive compensation for employees, etc.
 - Enhancements in local priority programs like education, law enforcement, etc.
 - State or federal mandates
- Without revenue growth, these critical issues cannot be addressed without cuts to the existing budget

Council Strategic Initiatives to Grow the Tax Base

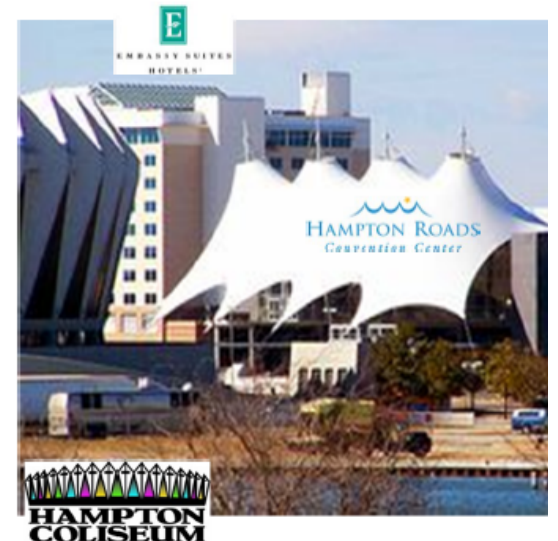
- ***Jobs***

- Science Park at Hampton Roads Center
- Aquaculture/Seafood Center
- Develop, keep and attract talented workforce and entrepreneurs
- Business retention, expansion & attraction

- ***Tourism***

- Improve Hotel Stock
- Build on sports tourism

Note: Initiatives and Tactics are largely funded with Strategic Priority funds.



Council Strategic Initiatives to Grow the Tax Base

- ***Higher Value Housing & Revitalization***
 - RFPs on City Land (ex. Pressey Otley & Harbour Square)
 - Housing Venture – upgrade existing housing
 - Position neighborhoods with smaller homes to appeal to millennials & empty nesters seeking to downsize
- ***Retail***
 - Work with private property owners to revitalize older properties

Note: Initiatives and Tactics are largely funded with Strategic Priority funds.

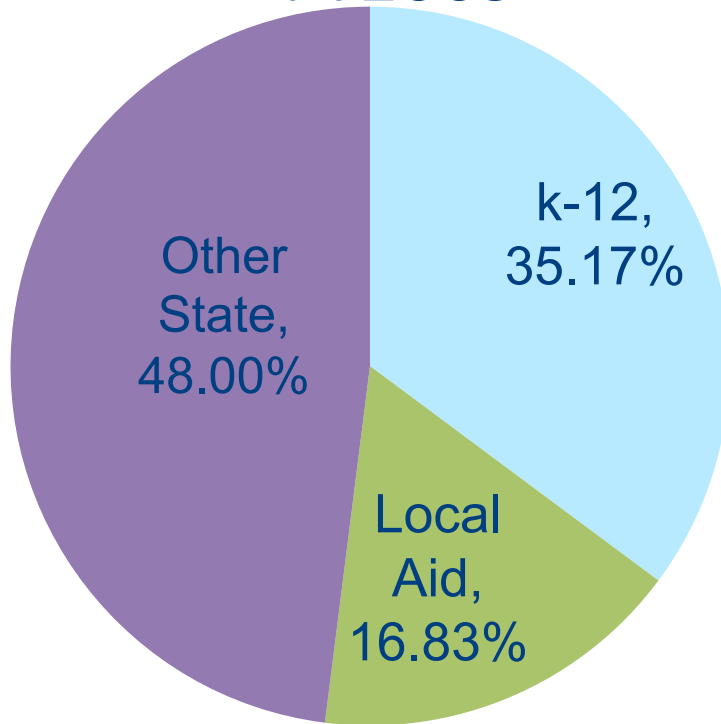


Localities Face Fiscal Stress

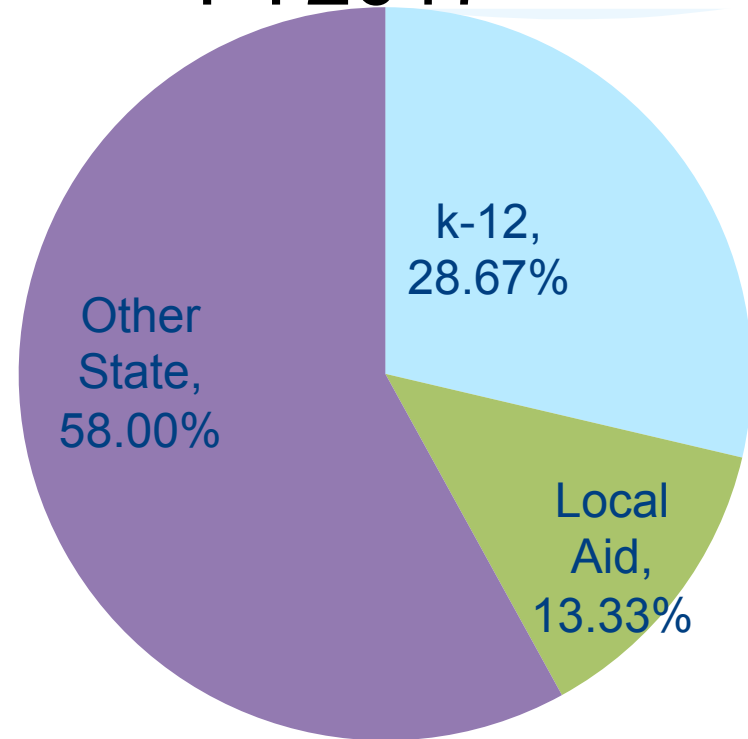
- Virginia ranks 10th in per capita personal income but 36th in per capita state taxes
- Local taxes in Virginia are high relative to other states in the Southeast
- The State has made this worse:
 - Inadequately funding required expenses
 - Passing on mandates costs to localities, such as Line of Duty
 - Requiring localities to send money to the State to help balance its budget
 - Restricting the ways localities can respond

Local Aid Share of State Budget

FY2009



FY2017



- \$4.4 billion in state revenue growth over this period would have resulted in:
 - = \$700 million in local aid
 - = \$1.3 billion for K-12

State Budget ~ Hampton Impacts Since 2009

- Decline in state support for localities since 2009 has impacted Hampton
 - \$29 million for K-12 in Hampton
 - Sustained \$24 million in real cuts since 2009
 - \$2.75 million for Police (HB599)
 - \$1.71 million for Sheriff & Jail
 - \$108k Juvenile Justice Grants

Dillon Rule

Local income tax



Change assessments



Increase sales tax



Create new taxes



Key Budget Concepts: Expenses

Money going out

Expenditure Issues

- Required expenses grow much faster than local revenues can support them
- Many local expenses are not discretionary and the Council cannot stop them
 - Examples: unfunded (and underfunded) mandates; social services; jails; etc.
- Moreover, many of these grow faster during a recession
 - Examples: social services, mental health and youth residential placement

Expenditure Issues

- Localities are responsible for appropriating school budgets BUT are not allowed to dictate how the money is spent
- About 45% of the total City budget goes to the school system
 - This includes the state and federal contribution but the city portion is very large

Schools

- Total Hampton Budget: \$450 million
 - Debt & Capital (city, schools): \$48 million
 - Total City Operations Budget: \$207 million
 - Total School Operating Budget: \$195 million
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- It takes the majority of real estate tax paid by every home in Hampton just to cover the local school contribution!

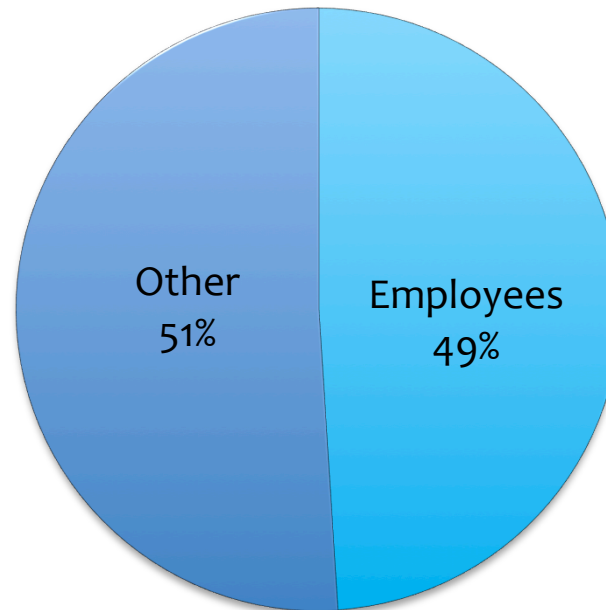
School Funding

- All localities exceed the required state match for schools because of the inadequacy

| | FY 13 | FY 14 | FY 15 | FY 16 |
|---|--------------|--------------|--------------|--------------|
| Required local contribution per state law | \$39,811,137 | \$39,595,626 | \$38,619,751 | \$38,245,174 |
| Local contribution in excess of requirement | \$25,114,041 | \$31,177,423 | \$31,992,472 | \$32,867,049 |

City Employees

- Employees are nearly half the budget



... so a 3% pay increase would require an approx. 1.2% increase in City revenues (excluding schools revenues).

Unfunded Mandates

- Good initiatives – clean up the Chesapeake Bay, help disabled veterans, Line of Duty etc. – but were set by the state but not funded by the state, must be funded by Hampton taxpayers
- Stormwater mandates: \$7 million/year
- Disabled veteran relief: \$1 million + /year
- Line of Duty: \$340K per year

FY17 Budget Drivers

FY17 City Budget Drivers

- Compensation
 - Wages - Fell behind during recession
 - Health insurance
- Police Equipment
 - Body cameras
 - Car cameras
 - Equipping auxiliary police, etc.
- Public safety radio maintenance
- Youth Violence Prevention Initiatives

FY17 City Budget Drivers

- Neighborhood engagement
- Regional entities
 - Regional Jail
 - Hampton Roads Transit
 - Regional Animal Shelter
- Enhanced customer service -- 311 App

Key Upcoming Dates

Key Upcoming Dates

~ City Budget ~

- March 8, 6:30PM, City Council Chambers, Town Hall Session for Operating Budget
- April 15: Manager recommends budget to Council
 - Copies on-line & in libraries
- April 27, 2016: Budget Briefing/ Public Hearing
- May 4: Public Hearing & 1st Reading:
- May 11: 2nd Reading & Adopt the budget

